

Economic & Market Commentary

- GDP rose an estimated 3.2% in the third quarter, aided by increased government spending, a rebound in residential construction, and a restocking of depleted inventories. After four consecutive quarters of economic contraction, the return to growth was a welcome change, and helped generate enough momentum to maintain a similar rate of growth rate in the fourth quarter, according to most forecasters. That said, growth is expected to remain somewhat sluggish for the foreseeable future as weak labor markets and tight credit conditions will limit consumption.
- Headline inflation indices fell deeper into negative territory in the third quarter as year-over-year comparisons continued to reflect sharp declines in energy prices from their 2008 highs. Despite significant growth in the money supply and a large decline in the value of the dollar, weak consumption and abundant excess capacity are expected to keep prices contained in the near term. The longer term path of inflation, however, remains much more uncertain.
- Though still quite weak, labor markets showed continued signs of stabilization in the third quarter. The unemployment rate increased 0.3% to 9.8% in the third quarter after rising 1.3% and 1% in the first and second quarters, respectively. While the rate of decline has moderated substantially, unemployment still remains at a 26 year high and is likely to climb higher as business continue to cut costs and workers reenter the labor force.
- Housing markets showed further signs of stabilization in the third quarter with existing home sales hitting their highest level in almost two years in July. Low mortgage rates, depressed home prices, rising consumer sentiment, and tax credits for first-time home buyers all contributed to the improvement in the sector. High foreclosure rates and bloated inventories of unsold homes have limited the pace of improvement, however, with some 3.6 million unsold homes, representing roughly 8.5 months of inventory, still on the market in August. The inventory levels, while down significantly from their peak, suggest that some pressure on home prices may persist.
- The FOMC convened two formal meetings during the third quarter, voting unanimously to maintain the target fed funds rate at its effective floor, while also voting to gradually slow the pace of its previously announced asset purchase programs "in order to promote a smooth transition in markets."
- Treasury yields declined in the third quarter after a sharp selloff in the first half of the year lured investors back into the market. Ongoing weakness in labor markets, a benign inflation outlook, and assurances from the Fed that it would maintain "exceptionally low" rates "for an extended period" provided investors sufficient reason to increase their holdings of Treasuries despite meaningful improvement in broader economic conditions.
- Virtually every major sector of the bond markets produced generous returns during the third quarter as long-term interest rates fell and credit-spreads continued their impressive move tighter. The Barclays Capital Aggregate Index registered a total return of 3.74% for the quarter, led once again by strong performances from corporate bonds and commercial mortgage backed securities (CMBS). A return to economic growth and continued improvements in the health of the financial system helped propel the return on corporate bonds above 8% for the period, beating duration-matched treasuries by over 5.5%. The CMBS market, which was boosted by prospects of increased demand fueled by the expected fourth quarter launch of the Treasury's Public-Private Investment Program (PPIP), experienced a 226 basis point decline in spreads, which, combined with the sector's large outsized yields, led to an astonishing 12.7% return in the third quarter. Similarly, Asset-Backed Securities (ABS), which also continued to benefit from the Fed's TALF program, produced nearly 5% of excess returns in the third quarter. Among the major sectors of the investment grade bond markets, only agency mortgages saw a widening of spreads, as investors migrated towards higher yielding sectors amid concerns about the impact of the Fed's eventual exit from the mortgage market. Nonetheless, the yield advantage of the mortgage backed securities (MBS) sector helped produce 1.12% of excess returns over Treasuries during the third period.

Portfolio Commentary

- The positive momentum experienced in the equity and fixed income markets, which began in earnest in late April of this year, carried throughout the third quarter. Fixed income sector spreads continued to compress as evidenced by the average option-adjusted spread (OAS) of the Barclays Capital Aggregate Index, led by commercial mortgage-backed securities (CMBS) and asset-backed securities (ABS) sectors which narrowed by 226 and 195 basis points, respectively.
- The SEI Stable Asset Fund ("the Fund") is comprised of a global bond portfolio and two broad market holdings.
- The global bond portfolio is currently comprised of allocations to the Dwight Enhanced Cash Fund, the Target 2 and Target 5 Funds, and a separately managed bond portfolio owned directly by the Fund. As a result of continued positive market sentiment in the third quarter, the market value performance of each of these strategies was overwhelmingly positive on an absolute and relative basis, returning 4.10%, 2.42% and 7.22%, and 6.39%, respectively.
- The broad market portfolio consists of allocations to the Dwight Intermediate Core and Core Funds. These strategies also provided considerable positive performance during the third quarter, returning 4.82% and 6.10%, respectively.
- Outperformance was generally driven by underweight exposure to Treasury securities and overweight allocations to high-quality commercial mortgage-backed, asset-backed and residential mortgage-backed securities. In addition, the broad market strategies benefitted from overweight exposure to investment-grade corporate securities.
- Treasury and agency exposure, representing over 30% of total assets, continue to be the Fund's largest fixed income sector concentration, followed by allocations to high-quality asset-backed and commercial mortgage-backed securities which represent 19% and 16%, respectively.
- The duration profile of the Fund remained stable around 2.5 years during the quarter as over 68% of bonds have durations of less than 3 years. Our duration posture remains defensive in light of our anticipation of an eventual rise in interest rates. Additionally, the Fund's average credit quality remained AAA throughout the quarter, as approximately 90% of the Fund's assets are rated AAA or better.
- The Fund continues to preserve participant capital while providing an attractive return relative to money market alternatives. For the quarter, the Fund posted a gross quarterly return of 0.31%, outperforming the MFR Money Market Index by 29 basis points. The Fund continues to outperform this index over the 3-, 5- and 10-year periods.

KEY STATISTICS ¹

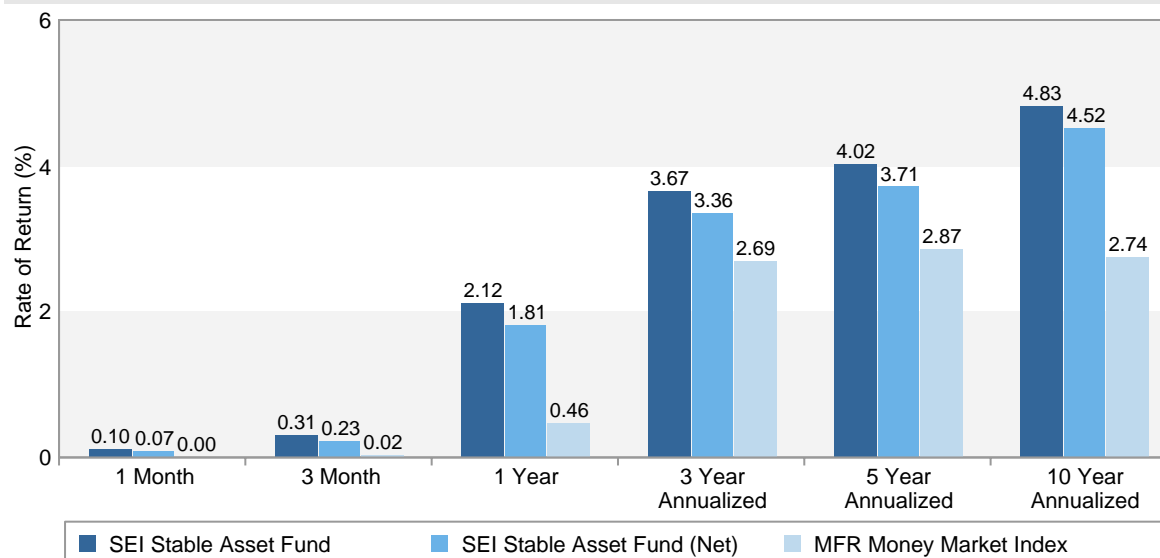
Fund Balance:	\$6.487 Billion
Current Spot Yield:	1.21%
Duration:	2.55 Years
Average Credit Quality:	AAA/Aaa
Share Price (NAV):	\$1.00

OBJECTIVE

- Preservation of principal, stable market value
- Earn current income while tracking intermediate-term interest rates

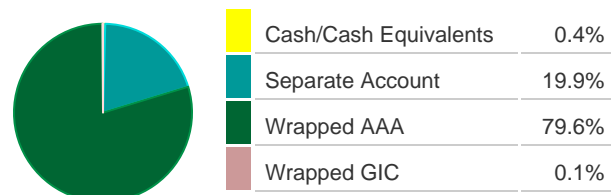
STRATEGY

- Invests in a diversified portfolio of high quality investments to reduce risk
- Utilizes wrapped fixed income investments to enhance credit quality and diversification

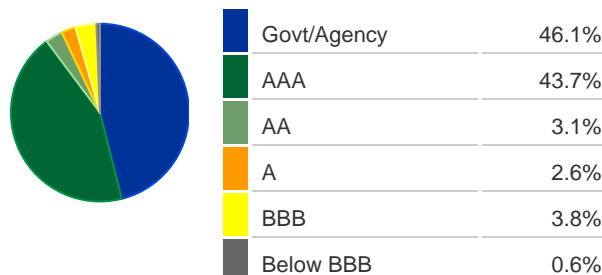
INVESTMENT PERFORMANCE ²

DISTRIBUTION DETAIL

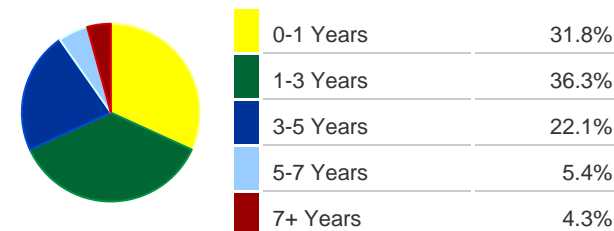
STABLE VALUE SECTORS



CREDIT QUALITY



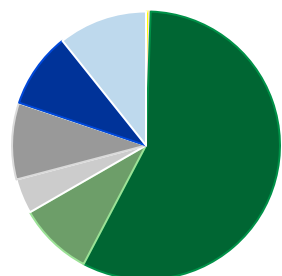
DURATION



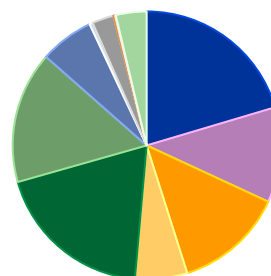
1. Duration is calculated using actual, benchmark or target duration as applicable. Credit Quality Allocation is presented using S&P rating nomenclature. Depending on the fund in which the securities are held, these ratings may be a calculated composite of the available ratings at the individual security level from S&P, Moody's and /or Fitch rating agencies.

2. Past performance is not a guarantee of future results. Returns are presented before fees (gross) unless otherwise indicated, are shown on an annualized basis for periods above 1 year, and include the reinvestment of interest income. Fees, which will reduce actual client returns, may vary among clients. A fee schedule is available upon request. Net returns shown for the SEI Stable Asset Fund reflect the deduction of trustee and investment advisory fees at an assumed annual rate of 30 bps. The MFR Money Market Index is the all-taxable money fund report average, a product of iMoneyNet, Inc. and is presented net of certain fees and expenses.

STABLE VALUE SECTOR DETAIL



Cash	0.4%
Wrapped GIC	0.2%
Wrapped AAA	
Dwight Target 2 Fund	57.1%
Dwight Target 5 Fund	9.0%
Enhanced Cash Fund	4.2%
SEI-AAA	9.2%
Separate Account	
Cash	0.0%
Dwight Core Fund	9.1%
Dwight Intermediate Core Fund	10.7%

FIXED INCOME SECTOR DETAIL¹

Treasury	20.4%
Agency	11.5%
MBS	13.2%
CMO	6.3%
ABS	19.2%
CMBS	15.9%
Invest. Grade Corp.	6.5%
High-Yield Corp.	0.4%
Non-Corp. Credit	2.6%
Municipals	0.2%
Derivatives	0.0%
Wrapped GIC	0.2%
Cash/Cash Equivalents	3.7%

STABLE VALUE ISSUER DETAIL

Separate Account Issuers:		Wrap Issuers:	
Issuer	S&P/Moody's	Issuer	S&P/Moody's
John Hancock	AA+/Aa3	AIG FP	A-/A3
Transamerica - AEGON	AA-/A1	Bank of America	A+/Aa3
		Monumental - AEGON	AA-/A1
		NATIXIS Financial Products - CDC	A+/Aa3
		Rabobank	AAA/Aaa
		Royal Bk of CA	AA-/Aaa
		State Street Bank	AA-/Aa2

1. Cash/cash equivalents represents cash and fixed income securities with a duration of one year or less. Allocations to Treasury and Cash/Cash Equivalents sectors presented reflect net Treasury positions. High Yield Corp. represents Stable Value Separate Account holdings that were downgraded and held as of month end. Dwight intends to dispose of the securities in accordance with the applicable account guidelines. The Fund invests a portion of its assets in certain Dwight commingled funds that may from time to time invest in derivatives. Additional information is available upon [request](#).